

February 13, 2018



NETSOL Technologies Reports Fiscal Second Quarter 2018 Financial Results

Cost Reductions Drive Non-GAAP Adjusted EBITDA of \$2.1 million, or \$0.19 per Diluted Share, and GAAP Net Income of \$634,000, or \$0.06 per Diluted Share

CALABASAS, Calif., Feb. 13, 2018 (GLOBE NEWSWIRE) -- **NETSOL Technologies, Inc.** (NASDAQ:NTWK), a global business services and enterprise application solutions provider, reported results for the fiscal second quarter ended December 31, 2017.

Operational Highlights

- Reported quarterly cost savings of \$2.1 million directly tied to recent cost rationalization initiatives, bringing total savings to \$4.4 million and with an anticipated reduction of more than \$6.0 million through fiscal 2018.
- An auto finance company of a leading bank in Indonesia, and an existing customer, launched its leasing project, further strengthening NETSOL's relationship with this Indonesian business partner and paving the way for further success in the market.
- Captive finance company of a leading truck manufacturer in China successfully went live with NetSol's web Point of Sale (POS) solution and is now also offering NETSOL's mPOS solution to its clients.
- Total consolidated pipeline of new business increased to approximately \$175 million, driven by potential Ascent™ contracts across all three major NETSOL markets.

Fiscal Second Quarter 2018 Financial Results

Total net revenues for the second quarter of fiscal 2018 were \$14.4 million, compared with \$15.9 million in the prior year period. The decrease in total net revenues was primarily due to a decrease in license fees of \$3.3 million, which was offset by an increase in services revenue of \$1.9 million.

- Total license fees were \$453,000, compared with \$3.8 million in the prior year period.
- Total maintenance fees were \$3.7 million, compared with \$3.6 million in the prior year period.

- Total services revenues were \$10.3 million, compared with \$8.4 million in the prior year period.

Gross profit for the second quarter of fiscal 2018 was \$6.7 million (or 46.3% of net revenues), compared to \$6.7 million (or 42.0% of net revenues) in the second quarter of fiscal 2017. The increase in gross profit as a percentage of net revenues was primarily due to a \$1.4 million decrease in cost of revenues for the quarter. The decrease in cost of revenues was primarily due to a decrease in salaries and consultant costs of \$618,000 related to the reduction of technical employees at key locations, including Pakistan, Thailand, China, UK and North America, as well as a decrease in travel costs of \$548,000.

Operating expenses for the second quarter of fiscal 2018 decreased 9% to \$6.4 million (or 44.1% of net revenues) from \$7.0 million (or 44.2% of net revenues) for the second quarter of fiscal 2017. The decrease in operating expenses was primarily due to cost reductions in selling and marketing expenses, salaries and wages, depreciation, and professional services.

GAAP net income attributable to NETSOL for the second quarter of fiscal 2018 totaled \$634,000 or \$0.06 per diluted share, an improvement from a net loss of \$2.2 million or \$(0.20) per diluted share in the second quarter of fiscal 2017.

Non-GAAP adjusted EBITDA for the second quarter of fiscal 2018 totaled \$2.1 million or \$0.19 per diluted share, compared with \$299,000 or \$(0.03) per diluted share in the second quarter of fiscal 2017 (see note regarding "Use of Non-GAAP Financial Measures," below for further discussion of this non-GAAP measure).

At December 31, 2017, cash and cash equivalents were \$10.0 million, an increase from \$8.6 million at the end of the prior quarter.

Stock Repurchase Program

On July 18, 2017, NETSOL's board of directors approved a stock repurchase program that authorized potential repurchases of up to one million shares of its common stock. The program expired on December 15, 2017. At the conclusion of the program, the company had repurchased 139,275 shares of its common stock at an aggregate value of \$601,000. The board of directors will evaluate future stock repurchase programs both in the U.S. and Pakistan, but can make no guarantee as to the timing of specifics related to such decisions.

Management Commentary

"The fiscal second quarter marked an improvement over Q1 in many ways, most notably in a return to profitability, but it was also affected by a continuation of the same prolonged sales cycles we have experienced over the past several quarters as well," said company Founder, Chairman and Chief Executive Officer Najeeb Ghauri. "Nevertheless, we are continuing to control and manage what we can to mitigate these matters in the near term, as evidenced by the sustained success of our cost-reduction initiative, which contributed to a \$1.4 million decrease in our total cost of revenues and a more than \$600,000 decrease in our operating expenses in Q2.

“Looking ahead, we remain encouraged by the size and breadth of our overall pipeline of new business, which has increased to approximately \$175 million, driven by strong demand for our Ascent solution across all our market regions. Despite these continued elongated sales cycles, we remain wholly focused on managing costs and executing on our more immediate prospects, so that we are ideally positioned to capitalize on our growing pipeline of opportunities beginning in the second half of the fiscal year and beyond.”

Conference Call

NETSOL Technologies management will hold a conference call today (February 13, 2018) at 9:00 a.m. Eastern time (6:00 a.m. Pacific time) to discuss these financial results. A question and answer session will follow management's presentation.

U.S. dial-in: 1-877-407-0789

International dial-in: 1-201-689-8562

Please call the conference telephone number 5-10 minutes prior to the start time. An operator will register your name and organization. If you have any difficulty connecting with the conference call, please contact Liolios Group at 1-949-574-3860.

The conference call will be broadcasted live and available for replay [here](#) and via the Investor Relations section of NETSOL's [website](#).

A replay of the conference call will be available after 12:00 p.m. Eastern time on the same day through February 27, 2018.

Toll-free replay number: 1-844-512-2921

International replay number: 1-412-317-6671

Replay ID: 13675381

About NETSOL Technologies

[NETSOL Technologies, Inc.](#) (NASDAQ:NTWK) is a worldwide provider of IT and enterprise software solutions primarily serving the global Leasing and Finance industry. The company's suite of applications is backed by 40 years of domain expertise and supported by a committed team of approximately 1,350 professionals placed in eight strategically located support and delivery centers throughout the world. NFS, LeasePak, LeaseSoft or NFS Ascent – help companies transform their Finance and Leasing operations, providing a fully automated asset-based finance solution covering the complete leasing and finance lifecycle.

Forward-Looking Statements

Certain statements in this press release are forward-looking in nature, including, but not limited to, expected net revenue and the demand for and sales lifecycle of NFS Ascent and the benefit of certain cost savings undertaken in the past fiscal year, and accordingly, are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. The words “expects,” “anticipates,” variations of such words, and similar expressions, identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, but their absence does not mean that the statement is not forward-looking. These statements are not guarantees of future

performance and are subject to certain risks, uncertainties, and assumptions that are difficult to predict. Factors that could affect the Company's actual results include the progress and costs of the development of products and services and the timing of the market acceptance. The subject Companies expressly disclaim any obligation or undertaking to update or revise any forward-looking statement contained herein to reflect any change in the company's expectations with regard thereto or any change in events, conditions or circumstances upon which any statement is based.

Use of Non-GAAP Financial Measures

The reconciliation of Adjusted EBITDA to net income, the most comparable financial measure based upon GAAP, as well as a further explanation of adjusted EBITDA, is included in the financial tables in Schedule 4 of this press release. Beginning with the fourth quarter of fiscal 2016, NETSOL has revised its calculation of Adjusted EBITDA to exclude the portion of Adjusted EBITDA that is attributable to its subsidiaries that have a minority interest.

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NETSOL Technologies, Inc. and Subsidiaries Schedule 1: Consolidated Balance Sheets

| ASSETS | As of December 31, 2017 | As of June 30, 2017 |
|---|-------------------------------|------------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 10,004,650 | \$ 14,172,954 |
| Accounts receivable, net of allowance of \$347,413 and \$571,511 | 19,106,677 | 6,583,199 |
| Accounts receivable, net - related party | 2,582,403 | 1,644,942 |
| Revenues in excess of billings | 16,094,026 | 19,126,389 |
| Revenues in excess of billings - related party | 107,562 | 80,705 |
| Convertible note receivable - related party | 750,000 | 200,000 |
| Other current assets | 2,819,183 | 2,463,886 |
| Total current assets | 51,464,501 | 44,272,075 |
| Restricted cash | 90,000 | 90,000 |
| Revenues in excess of billings, net - long term | 6,668,854 | 5,173,538 |
| Property and equipment, net | 18,443,494 | 20,370,703 |
| Other assets | 3,543,315 | 3,211,295 |
| Intangible assets, net | 14,810,605 | 17,043,151 |
| Goodwill | 9,516,568 | 9,516,568 |
| Total assets | \$ 104,537,337 | \$ 99,677,330 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 7,560,298 | \$ 6,880,194 |
| Current portion of loans and obligations under capitalized leases | 10,133,100 | 10,222,795 |
| Unearned revenues | 10,082,346 | 3,925,702 |

| | | |
|--|-----------------------|----------------------|
| Common stock to be issued | 88,324 | 88,324 |
| Total current liabilities | 27,864,068 | 21,117,015 |
| Loans and obligations under capitalized leases; less current maturities | 250,883 | 366,762 |
| Total liabilities | 28,114,951 | 21,483,777 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, \$.01 par value; 500,000 shares authorized; | - | - |
| Common stock, \$.01 par value; 14,500,000 shares authorized; 11,395,401 shares issued and 11,221,347 outstanding as of December 31, 2017 and 11,225,385 shares issued and 11,190,606 outstanding as of June 30, 2017 | 113,954 | 112,254 |
| Additional paid-in-capital | 125,354,035 | 124,409,998 |
| Treasury stock (At cost, 174,054 shares and 34,779 shares as of December 31, 2017 and June 30, 2017, respectively) | (1,055,330) | (454,310) |
| Accumulated deficit | (42,036,467) | (42,301,390) |
| Stock subscription receivable | (221,000) | (297,511) |
| Other comprehensive loss | (20,276,030) | (18,074,570) |
| Total NetSol stockholders' equity | 61,879,162 | 63,394,471 |
| Non-controlling interest | 14,543,224 | 14,799,082 |
| Total stockholders' equity | 76,422,386 | 78,193,553 |
| Total liabilities and stockholders' equity | \$ 104,537,337 | \$ 99,677,330 |

NETSOL Technologies, Inc. and Subsidiaries
Schedule 2: Consolidated Statement of Operations

| | For the Three Months Ended December 31, | | For the Six Months Ended December 31, | |
|----------------------------------|--|------------------|--|------------------|
| | 2017 | 2016 Restated | 2017 | 2016 Restated |
| Net Revenues: | | | | |
| License fees | \$ 235,932 | \$ 3,769,557 | \$ 561,998 | \$ 9,223,352 |
| Maintenance fees | 3,568,448 | 3,588,899 | 7,042,173 | 7,112,696 |
| Services | 9,087,191 | 6,619,158 | 16,104,928 | 12,175,293 |
| License fees - related party | 217,105 | - | 261,513 | 246,957 |
| Maintenance fees - related party | 101,251 | 51,345 | 204,214 | 181,976 |
| Services - related party | 1,236,508 | 1,829,827 | 3,090,385 | 3,994,981 |
| Total net revenues | 14,446,435 | 15,858,786 | 27,265,211 | 32,935,255 |
| Cost of revenues: | | | | |
| Salaries and consultants | 5,362,092 | 5,979,804 | 10,826,252 | 11,873,153 |
| Travel | 287,901 | 836,240 | 801,013 | 1,548,135 |
| Depreciation and amortization | 1,168,103 | 1,318,764 | 2,341,216 | 2,649,636 |
| Other | 939,986 | 1,065,727 | 1,796,568 | 2,038,065 |
| Total cost of revenues | 7,758,082 | 9,200,535 | 15,765,049 | 18,108,989 |
| Gross profit | 6,688,353 | 6,658,251 | 11,500,162 | 14,826,266 |
| Operating expenses: | | | | |
| Selling and marketing | 1,932,140 | 2,713,478 | 3,643,436 | 5,057,516 |

| | | | | |
|---|---------------------|------------------------|---------------------|------------------------|
| Depreciation and amortization | 222,785 | 271,485 | 468,658 | 540,582 |
| Provision for bad debts | - | 1,026 | - | 1,026 |
| General and administrative | 4,026,706 | 3,932,387 | 7,814,264 | 8,551,583 |
| Research and development cost | 189,891 | 91,607 | 374,976 | 184,539 |
| | <u>6,371,522</u> | <u>7,009,983</u> | <u>12,301,334</u> | <u>14,335,246</u> |
| Total operating expenses | | | | |
| Income from operations | <u>316,831</u> | <u>(351,732)</u> | <u>(801,172)</u> | <u>491,020</u> |
| Other income and (expenses) | | | | |
| Loss on sale of assets | (8,939) | (32,339) | (16,069) | (34,742) |
| Interest expense | (109,675) | (62,127) | (227,746) | (116,602) |
| Interest income | 115,570 | 23,416 | 252,481 | 53,856 |
| Gain (loss) on foreign currency exchange transactions | 1,737,967 | (621,887) | 2,754,329 | (1,036,783) |
| Share of net loss from equity investment | (203,336) | - | (270,898) | - |
| Other income | 14,511 | 6,823 | 15,610 | 28,383 |
| | <u>1,546,098</u> | <u>(686,114)</u> | <u>2,507,707</u> | <u>(1,105,888)</u> |
| | | | | |
| Net income (loss) before income taxes | <u>1,862,929</u> | <u>(1,037,846)</u> | <u>1,706,535</u> | <u>(614,868)</u> |
| Income tax provision | <u>(200,927)</u> | <u>(338,884)</u> | <u>(225,798)</u> | <u>(378,759)</u> |
| | | | | |
| Net income (loss) | <u>1,662,002</u> | <u>(1,376,730)</u> | <u>1,480,737</u> | <u>(993,627)</u> |
| | | | | |
| Non-controlling interest | <u>(1,027,581)</u> | <u>(791,664)</u> | <u>(1,215,814)</u> | <u>(1,560,878)</u> |
| | | | | |
| Net income (loss) attributable to NetSol | <u>\$ 634,421</u> | <u>\$ (2,168,394)</u> | <u>\$ 264,923</u> | <u>\$ (2,554,505)</u> |
| | | | | |
| Net income (loss) per share: | | | | |
| Net income (loss) per common share | | | | |
| Basic | \$ 0.06 | \$ (0.20) | \$ 0.02 | \$ (0.24) |
| Diluted | \$ 0.06 | \$ (0.20) | \$ 0.02 | \$ (0.24) |
| | | | | |
| Weighted average number of shares outstanding | | | | |
| Basic | <u>11,159,075</u> | <u>10,877,446</u> | <u>11,115,346</u> | <u>10,783,685</u> |
| Diluted | <u>11,171,543</u> | <u>10,877,446</u> | <u>11,127,814</u> | <u>10,783,685</u> |

NETSOL Technologies, Inc. and Subsidiaries
Schedule 3: Consolidated Statement of Cash Flows

| | For the Six Months Ended December 31, | |
|--|--|------------------|
| | 2017 | 2016 Restated |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ 1,480,737 | \$ (993,627) |
| Adjustments to reconcile net income (loss) | | |

| | | |
|--|----------------------|---------------------|
| to net cash provide by (used in) operating activities: | | |
| Depreciation and amortization | 2,809,874 | 3,190,218 |
| Provision for bad debts | - | 1,026 |
| Share of net loss from investment under equity method | 270,898 | - |
| Loss on sale of assets | 16,069 | 34,742 |
| Stock based compensation | 833,530 | 1,525,775 |
| Fair market value of warrants and stock options granted | - | 21,804 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (13,231,059) | 3,678,110 |
| Accounts receivable - related party | (1,637,829) | 829,285 |
| Revenues in excess of billing | 602,676 | (7,592,495) |
| Revenues in excess of billing - related party | (32,308) | 285,791 |
| Other current assets | (524,547) | 585,147 |
| Accounts payable and accrued expenses | 887,824 | 334,241 |
| Unearned revenue | 6,469,146 | (1,830,619) |
| Net cash provided by (used in) operating activities | (2,054,989) | 69,398 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (543,123) | (1,074,316) |
| Sales of property and equipment | 193,241 | 181,087 |
| Convertible note receivable - related party | (500,000) | - |
| Investment in WRLD3D | (50,000) | (705,555) |
| Net cash used in investing activities | (899,882) | (1,598,784) |
| Cash flows from financing activities: | | |
| Proceeds from the exercise of stock options and warrants | 215,311 | 429,452 |
| Proceeds from exercise of subsidiary options | 7,755 | 18,089 |
| Purchase of treasury stock | (601,020) | (38,885) |
| Dividend paid by subsidiary to non-controlling interest | (417,853) | (968,657) |
| Proceeds from bank loans | 708,457 | - |
| Payments on capital lease obligations and loans - net | (361,814) | (69,998) |
| Net cash used in financing activities | (449,164) | (629,999) |
| Effect of exchange rate changes | (764,269) | 107,241 |
| Net decrease in cash and cash equivalents | (4,168,304) | (2,052,144) |
| Cash and cash equivalents, beginning of the period | 14,172,954 | 11,557,527 |
| Cash and cash equivalents, end of period | \$ 10,004,650 | \$ 9,505,383 |

NETSOL Technologies, Inc. and Subsidiaries
Schedule 4: Reconciliation to GAAP

| | Three Months Ended December 31, 2017 | Three Months Ended December 31, 2016 Restated | Six Months Ended December 31, 2017 | Six Months Ended December 31, 2016 Restated |
|--|---|---|---|---|
| Net Income (loss) before preferred dividend, per GAAP | \$ 634,421 | \$ (2,168,394) | \$ 264,923 | \$ (2,554,505) |
| Non-controlling interest | 1,027,581 | 791,664 | 1,215,814 | 1,560,878 |
| Income taxes | 200,927 | 338,884 | 225,798 | 378,759 |
| Depreciation and amortization | 1,390,888 | 1,590,249 | 2,809,874 | 3,190,218 |
| Interest expense | 109,675 | 62,127 | 227,746 | 116,602 |
| Interest (income) | (115,570) | (23,416) | (252,481) | (53,856) |

| | | | | |
|-----------------------------------|----------------------------|-----------------------------|----------------------------|----------------------------|
| EBITDA | \$ 3,247,922 | \$ 591,114 | \$ 4,491,674 | \$ 2,638,096 |
| Add back: | | | | |
| Non-cash stock-based compensation | 405,721 | 682,123 | - 833,530 | 1,547,579 |
| Adjusted EBITDA, gross | <u>\$ 3,653,643</u> | <u>\$ 1,273,237</u> | <u>\$ 5,325,204</u> | <u>\$ 4,185,675</u> |
| Less non-controlling interest (a) | (1,562,303) | (1,550,729) | (2,264,167) | (3,183,972) |
| Adjusted EBITDA, net | <u><u>\$ 2,091,340</u></u> | <u><u>\$ (277,492)</u></u> | <u><u>\$ 3,061,037</u></u> | <u><u>\$ 1,001,703</u></u> |

Weighted Average number of shares outstanding

| | | | | |
|-------------------------|-----------------------|--------------------------|-----------------------|-----------------------|
| Basic | 11,159,075 | 10,877,446 | 11,115,346 | 10,783,685 |
| Diluted | <u>11,171,543</u> | <u>10,877,446</u> | <u>11,127,814</u> | <u>10,939,177</u> |
| Basic adjusted EBITDA | <u>\$ 0.19</u> | <u>\$ (0.03)</u> | <u>\$ 0.28</u> | <u>\$ 0.09</u> |
| Diluted adjusted EBITDA | <u><u>\$ 0.19</u></u> | <u><u>\$ (0.03)</u></u> | <u><u>\$ 0.28</u></u> | <u><u>\$ 0.09</u></u> |

(a)The reconciliation of adjusted EBITDA of non-controlling interest to net income attributable to non-controlling interest is as follows

| | | | | |
|---|----------------------------|----------------------------|----------------------------|----------------------------|
| Net Income attributable to non-controlling interest | \$ 1,027,581 | \$ 791,664 | \$ 1,215,814 | \$ 1,560,878 |
| Income Taxes | 29,945 | 23,907 | 40,423 | 37,781 |
| Depreciation and amortization | 465,138 | 730,672 | 932,320 | 1,556,538 |
| Interest expense | 34,463 | 12,991 | 73,535 | 31,333 |
| Interest (income) | (36,918) | (34,947) | (82,075) | (51,397) |
| EBITDA | <u>\$ 1,520,209</u> | <u>\$ 1,524,287</u> | <u>\$ 2,180,017</u> | <u>\$ 3,135,133</u> |
| Add back: | | | | |
| Non-cash stock-based compensation | 42,094 | 26,442 | 84,150 | 48,839 |
| Adjusted EBITDA of non-controlling interest | <u><u>\$ 1,562,303</u></u> | <u><u>\$ 1,550,729</u></u> | <u><u>\$ 2,264,167</u></u> | <u><u>\$ 3,183,972</u></u> |



Source: NETSOL Technologies Inc.